

Notice of the State Administration of Taxation on Several Issues Concerning Personal Income Tax Policies Cai Shui Zi [1994] No. 20

In accordance with the relevant provisions of the "Personal Income Tax Law of the People's Republic of China" and its implementing regulations, several issues concerning personal income tax policies are hereby notified as follows:

I. Regarding the Taxation of Individual Industrial and Commercial Households

- (1) The deduction standards for the expenses of individual industrial and commercial household owners and the wages of employees shall be determined by the tax authorities of each province, autonomous region, or municipality directly under the central government. Interest expenses on loans borrowed by individual industrial and commercial households during production or operation, if supported by legitimate proof and not exceeding the amount calculated at the interest rate for similar loans of financial institutions for the same period, are allowed to be deducted.
- (2) For individual industrial and commercial households or individuals engaged exclusively in planting, aquaculture, animal husbandry, or fishing, where the business items fall within the scope of agricultural tax (including agricultural specialty tax, the same below) and animal husbandry tax and have already been subject to agricultural tax or animal husbandry tax, no personal income tax shall be levied. For income not within the scope of agricultural tax or animal husbandry tax, personal income tax shall be levied on the income. For those engaged in the aforementioned four industries concurrently and separately accounting for the income from these industries, the above principles shall apply. For income subject to personal income tax, it shall be combined with the production and business income from other industries for the calculation and levy of personal income tax. If the income from the four industries cannot be separately accounted for, personal income tax shall be levied on the total income.
- (3) Profits obtained by individual industrial and commercial households from joint operations with enterprises shall be subject to personal income tax under the category of interest, dividends, and bonuses.
- (4) For individual industrial and commercial households and individuals engaged in production or business, if they obtain various taxable incomes unrelated to production or business activities, personal income tax shall be calculated and levied separately in accordance with the regulations.

II. The Following Incomes Shall Be Temporarily Exempt from Personal Income Tax

- (1) Housing subsidies, meal allowances, relocation expenses, and laundry expenses received by foreign individuals in non-cash form or on a reimbursement basis.
- (2) Domestic and overseas business travel subsidies received by foreign individuals at reasonable standards.
- (3) Visit-related expenses, language training fees, children's education fees, etc., received by foreign individuals, subject to approval by the local tax authorities as reasonable.
- (4) Bonuses received by individuals for reporting or assisting in investigating illegal or criminal activities.
- (5) Service fees for withholding taxes obtained by individuals in accordance with regulations for handling tax withholding procedures.
- (6) Income obtained by individuals from the transfer of their self-used, sole family residence that has been owned for five years or more.
- (7) For senior experts (referring to experts and scholars enjoying special government allowances provided by the state) who have reached the age of retirement or retire with full honors (retirement for pre-1949 participants) but whose retirement is appropriately delayed due to work needs, in accordance with the spirit of State Council Document [1983] No. 141 "Interim Provisions of the State Council on Several Issues Concerning the Retirement of Senior Experts" and State Council Office Document [1991] No. 40 "Notice of the General Office of the State Council on the Approval of Delayed Retirement for Outstanding Senior Experts," their wages and salaries during the extended retirement period shall be treated as retirement wages or retire with full honors wages and exempt from personal income tax.
- (8) Dividend and bonus income obtained by foreign individuals from foreign-invested enterprises.

(9) Wage and salary income obtained by foreign experts who meet any of the following conditions may be exempt from personal income tax:

1. Foreign experts directly sent to work in China under special loan agreements of the World Bank;
2. Experts directly sent to work in China by United Nations organizations;
3. Experts coming to China to work on United Nations aid projects;
4. Experts sent by aid countries to work exclusively on gratuitous aid projects of their country in China;
5. Cultural and educational experts coming to work in China for up to two years under cultural exchange programs signed by the two governments, whose wage and salary income is borne by their country;
6. Cultural and educational experts coming to work in China for up to two years under international exchange programs of Chinese universities and colleges, whose wage and salary income is borne by their country;
7. Experts coming to work in China under non-governmental scientific research agreements, whose wage and salary income is borne by their government agencies.

III. Regarding the Deduction of Agency Fees

Agency fees paid by individuals in the process of engaging in technology transfer or providing services, if supported by valid and legitimate vouchers, are allowed to be deducted from their income.

IV. Whether to Levy Personal Income Tax on Interest or Dividend and Bonus Income Obtained by Individuals from Basic-Level Supply and Marketing Cooperatives or Rural Credit Cooperatives

This shall be determined by the tax authorities of each province, autonomous region, or municipality directly under the central government, reporting to the provincial-level government for decision, and filed with the Ministry of Finance and the State Administration of Taxation.